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National Railway Service Corporation

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[Baltimore]

[1922]

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To accompany statement in respect to pooling of freight cars and related subjects, of S. Davies Warfield, President, on behalf of the National Association of Owners of Railroad Securities, filed with the Efficiency Division, Interstate Commerce Commission, April 6, 1922, (See Page 25).

NATIONAL RAILWAY SERVICE CORPORATION

Alternative Bases for Rehabilitation of Unserviceable Interchange Freight Cars

The following is a brief outline of the basis on which the National Railway Service Corporation will consider applications from railroads for the rebuilding or rehabilitation of interchange freight cars. The Service Corporation will undertake to finance this equipment, making application for a loan from the Interstate Commerce Commission, on behalf of the Carrier, under the Service Corporation's applications for loans under Section 210, Transportation Act, 1920, filed with the Commission before March 1, 1922, amounts required in excess of such loan to be obtained through sale of the Corporation's Equipment Trust Certificates.

It will be understood that each carrier's request in connection with rebuilding or rehabilitating its cars is required to be submitted by the Service Corporation to the Finance Division of the Commission and acted on separately. Loans would be available only as and when approved by the Commission under the conditions the Commission may prescribe.

REBUILT EQUIPMENT

It is indispensable that all unserviceable units proposed to be rebuilt or rehabilitated shall be subjected to an equipment trust, free of superior liens. For this reason the procedure for the making of loans by the Service Corporation may depend upon the provisions of the particular carrier's mortgages.

To accomplish the required result, the units must ordinarily be sold outright by the Carrier to the Service

Corporation for the present value of the unit as it now stands, less the value of the scrap to be produced in the process of rehabilitation, which is to be retained by the carrier. It is proposed that the price which the Service Corporation will agree to pay for the unit is to be determined by appraisal according to formula and instructions of Division Four (Finance Division) of the Interstate Commerce Commission in those cases in which the Commission will authorize a loan from the United States.

Where an outstanding equipment trust is not fully discharged, the Service Corporation may nevertheless accept the units subject to such trust for rebuilding without requiring their release from the trust, provided the carrier will adequately secure the discharge of the outstanding equipment trust obligations as they mature.

ACCOUNTING

The accounting incident to the transaction will be in accordance with the Commission's regulations. Other than to the extent that the Service Corporation must see to it in all cases that the title or lien of the equipment trust in and to the unit of equipment is superior, the Service Corporation is not concerned in whether the unit is retired for sale and written out of the carrier's accounts, with appropriate credit on charges to profit and loss, or the expenditure charged to operations or capital, as may be necessary (I. C. C. Accounts 603 or 609).

If the carrier's mortgage so requires, the release price of the unit will be paid by the Service Corporation to the Trustee of the carrier's senior mortgage upon the particular equipment—ordinarily under an agreement for the reinvestment of the amount in new or rebuilt equipment, or equity in equipment, to be subjected to the equipment trust covering the rebuilt equipment.

SPECIFICATIONS FOR REHABILITATION AND IMPROVEMENT

The units will be rebuilt or rehabilitated by the Service Corporation in railroad shops or in private shops, according as may be agreed with the carrier, having in

view the most expeditious and economical execution of the work.

The Service Corporation will require any additions and betterments to the unit which will clearly tend to prolong service or reduce current maintenance. Thus, wooden end box cars may be strengthened or wooden underframes fitted with steel. All types proposed to be accepted will be submitted by the engineers of the carriers to the Service Corporation's engineers for agreement as to specifications for rehabilitation or improvement. No units can be accepted which cannot economically be put in condition for useful service without undue expense for yearly maintenance and extending beyond the life of the particular trust.

RE-INVESTMENT IN OTHER EQUIPMENT OR IN REHABILITATED EQUIPMENT

If the carrier prefers to employ the proceeds realized from the sale of its present unserviceable equipment in new equipment, or in the rebuilt equipment of some other carrier, the Service Corporation will endeavor to make other disposition of the carrier's rebuilt units, but ordinarily the carrier will be expected to contract for the purchase of all of its rebuilt or rehabilitated units through an equipment trust.

ALTERNATIVE BASES

Where the proceeds required to be paid by the Service Corporation to the mortgage trustees for release of the units from Mortgage liens are available under the terms of the mortgage for use in the purchase by the carrier of rebuilt units, the carrier will give its conditional sale purchase notes, or rent notes, for a principal amount equal only to the cost of rebuilding, financing and clearing the operation, including an appropriate overhead allowance to the Service Corporation. In such cases (that is, where the appraised value paid by the Service Corporation in acquiring the unit for rebuilding is used in repurchasing the rehabilitated unit) the amount of equipment trust certificates, prior lien and deferred lien, outstanding against the rebuilt equip-

ment and constituting the underlying security outstanding, will be sufficiently protected by the equity represented by the appraised value of the unit before rebuilding, against which no equipment trust obligations will be issued. In such cases no additional security would be required from the carrier, and the principal amount it would assume in connection with the transaction would be approximately the cost of rebuilding or rehabilitation.

Where the proceeds required to be paid by the Service Corporation to the mortgage trustee are not available for use in purchasing the rebuilt unit, the carrier would be expected to pay in cash or to secure by marketable collateral an amount equal to say 25% of the total cash requirement of the Service Corporation in clearing the transaction. In such cases (that is, where the purchase price paid by the Service Corporation in acquiring the units for rebuilding is not available for investment in the rebuilt units) the carrier will be expected, in ordinary cases, to agree either that the proceeds be invested in new equipment and brought under the equipment trust agreement as additional security to the prior and deferred lien certificates outstanding in respect of the rebuilt units or else invested in other additions and betterments for which the carrier may be authorized to take down its mortgage bonds and under an agreement to turn such bonds over to the equipment trustee as additional security for the prior and deferred lien certificates issued in respect of the rebuilt equipment.

It is probable that in *all* cases should the use of the release price (purchase price of the unit before rehabilitation) not be available in repurchasing after rehabilitation, the cash in the hands of the trustee of the carrier's senior mortgage can be invested or employed so as to enable the carrier to give adequate security without drawing upon its cash resources.

ILLUSTRATION

of Certain Alternatives proposed by

NATIONAL RAILWAY SERVICE CORPORATION

For Equipment Trust to Provide for Rehabilitation of Unserviceable Equipment

Assume:

NORTH & SOUTH RAILROAD COMPANY:

Number of cars to be rehabilitated..	2,000
Present appraised value, say $600 each, to be paid mortgage trustee for release of units	$1,200,000
Cost to rehabilitate and improve, say $400 each	800,000
Total cost to Service Corporation (overhead and incidentals omitted) say:	2,000,000

I. If release price paid mortgage trustee is available for reinvestment in repurchase of rebuilt unit.

Approximate repurchase price to be paid by carrier to trustee of equipment trust:

—in cash (release price in hands of mortgage trustee)....	$1,200,000
—in conditional sale purchase note or rent notes, payable semi-annually (not including allowance for interest and overhead)	$800,000
Total.....	$2,000,000

Aggregate principal amount of Equipment Trust Certificates to be issued by Service Corporation (assuming 40% loan from United States):

Prior Lien.....	$480,000
Deferred Lien.....	320,000
Total.....	$800,000

II. If release price paid mortgage trustee is NOT available for investment in repurchase of rebuilt units.

Approximate purchase price to be paid by carrier to trustee of equipment trust:

—in cash, such amount, if any, as Commission may require to establish satisfactory margin of security in equipment over and above outstanding equipment trust obligations, in addition to other security noted hereunder.....	$
—in conditional sale purchase notes or rent notes; that is, assuming no cash payment by carrier, ...	$2,000,000

Aggregate principal amount of Equipment Trust Certificates to be issued by Service Corporation (assuming 40% loan from United States):

Prior Lien.....	$1,200,000
Deferred Lien.....	800,000
Total.....	$2,000,000

Additional security other than rebuilt equipment and unconditional obligation of the carrier—.....NONE.	Additional Security required of Carrier; Sufficient to secure full amount of loan from United States (that is, $800,000—assuming 40% loan).
	Source from which additional security will be available: Release price paid mortgage trustee ($800,000) to be invested in other equipment and subjected to the equipment trust or in other additions and betterments in respect of which carrier may take down its mortgage bonds and pledge with equipment trustee... $800,000
Value of equipment against which $800,000 equipment trust certificates constitute prior charge, ...$2,000,000.	Value of equipment and additional security against which $2,000,000 of equipment trust certificates constitute prior charge, ...$2,000,000.
Ratio of security to equipment obligations.....250%	Ratio of security to equipment obligations (minimum).....140%

NEW CARS

This memorandum deals particularly with rebuilt or rehabilitated equipment. Applications for loans for the purchase of new equipment will not differ materially from the basis on which the Service Corporation has heretofore financed equipment purchases—the United States supplying 40% evidenced by Deferred Lien Certificates and the Service Corporation 60% evidenced by Prior Lien Certificates.

In purchasing new equipment on a *Conditional Sale Basis* the carriers have been grouped for the purposeof reducing the overhead expenses of the trusts and in order to make provision for the issue of the Service Corporation's certificates, rather than those of the individual carriers; but each carrier's contract and interest in the equipment covered by its contract is distinct from the contract and interest of other carriers in the group. Under this basis each carrier has been required to produce security satisfactory to the Commission, either by supplying an adequate proportion of the cost of the equipment in cash or by giving marketable collateral to the extent of the Government loan, or by a combination of the two.

Under the *Lease Basis* there is no direct liability of one carrier for the obligations of any other carrier participating in any particular trust, but there is a qualified liability of all of the equipment until all of the trust certificates issued in respect to all carriers in the group have been paid, in that on the termination of the trust the carrier is not entitled to a bill of sale carrying title until all of the equipment obligations issued under that group trust are discharged. In consideration of this feature the Commission has required materially less security or cash payment from the carriers contracting under the Lease Basis than when contracting under the Conditional Sale Basis.

In approved instances carriers will be authorized to make use of completely rehabilitated trucks or other metal parts when equally as serviceable as new in the construction of new equipment provided the material is sold outright so as to carry title out of the carrier before conditional sale or lease of the completed unit by the Trustee to the carrier.

NOTE: In either case—rebuilt or new equipment—the Service Corporation may finance the entire transaction without loans through the Commission from the Government Revolving Fund, established under Section 210 of the Transportation Act, 1920.

Name of Carrier or System: Report No.....

..... Date.....

NATIONAL RAILWAY SERVICE CORPORATION

Preliminary Data required for Consideration of Application by Carrier for Rebuilding or Rehabilitating Unserviceable interchange freight cars.

1. TYPE OF CAR: *i. e.*, box, hopper, etc. (File two copies of plans, if available)
2. SYSTEM NUMBERS from which units are to be selected for rehabilitation.
3. Number of units proposed to be sold, rebuilt or rehabilitated.
4. Estimated average depreciated book value, including improvements of each type.
5. Estimated number of heavy or rebuilt repairs given each type.
6. When originally put in service?
7. By whom manufactured?
8. If series was or is subject to equipment trust or agreement of lease or conditional sale (File one copy, with copy of all supplement or amendments):

   (a) Date;
   (b) Designation of Agreement and trustee;
   (c) Date of last maturing equipment obligation;
   (d) Amount of equipment obligations
      (1) Outstanding and unpaid;
      (2) Stamped or held as uncancelled by mortgage trustee.

9. Name of owner (*i.e.*, whether applicant, subsidiary, or equipment company).
10. Relation of applicant to cars, if not owner.
11. Encumbrances other than Equipment trust, lease or conditional sale (File one copy of each instrument, with copy of all amendments):

   (a) Description of liens in order of priority;
   (b) Trustee;
   (c) Does instrument authorize release for sale?
   (d) Does instrument authorize release when unserviceable?

12. Does instrument authorize trustee to invest release price—

   (a) In rebuilt equipment;
   (b) In new equipment;
   (c) In equipment purchased subject to liens or equipment obligations;
   (d) In equipment purchased through subsidiary company.

13. If instrument does not authorize investment of release price in new or rebuilt equipment or equity in equipment (thus requiring Service Corporation to invest full amount of release price as well as the cost of rebuilding in the operation) can applicant produce 25% of the cash involved or give marketable security to that extent, assuming that release price paid trustee is available for acquisition of new equipment or for other additions and betterments. Describe security proposed.
14. Average estimated cost to rebuild or otherwise rehabilitate unit including strengthening or improvement deemed desirable. Answer on separate sheet if necessary for full explanation, accompanied by sketch or description of improvements, if any.
15. State, as to each type involved, what shops of applicant's would be most available for the work.
16. State whether in the opinion of applicant work could be done at less expense in non-carrier shops, and if so, what private shops are considered most available for all or any part of the work.
17. Would applicant prefer to repurchase the rebuilt or rehabilitated units or for Service Corporation to sell to other carriers, thus permitting carrier to invest release price in new equipment or in other additions and betterments.

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